AASB Exposure Draft

ED 234
December 2012

Acquisition of an Interest in a Joint Operation

(proposed amendment to AASB 11)

Comments to the AASB by 22 March 2013

Australian Government

Australian Accounting Standards Board

Commenting on this AASB Exposure Draft

Constituents are strongly encouraged to respond to the AASB and the IASB. The AASB is seeking comment by 22 March 2013. This will enable the AASB to consider Australian constituents' comments in the process of formulating its own comments to the IASB, which are due by 23 April 2013. Comments should be addressed to:

The Chairman
Australian Accounting Standards Board
PO Box 204
Collins Street West Victoria 8007
AUSTRALIA
E-mail: standard@aasb.gov.au

Respondents to the IASB are asked to send their comments electronically to the IFRS Foundation website (www.ifrs.org), using the 'Comment on a proposal' page.

All submissions on possible, proposed or existing financial reporting requirements, or on the standard-setting process, will be placed on the public record unless the Chairman of the AASB agrees to submissions being treated as confidential. The latter will occur only if the public interest warrants such treatment.

Obtaining a Copy of this AASB Exposure Draft

This AASB Exposure Draft is available on the AASB website: www.aasb.gov.au. Alternatively, printed copies of this AASB Exposure Draft are available by contacting:

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AASB REQUEST FOR COMMENTS

In light of the Australian Accounting Standards Board's (AASB's) policy of incorporating International Financial Reporting Standards (IFRSs) into Australian Accounting Standards, the AASB is inviting comments on:

(a) any of the proposals in the attached International Accounting Standards Board (IASB) Exposure Draft, including the specific questions on the proposals as listed in the Invitation to Comment section of the attached IASB Exposure Draft; and

(b) the 'AASB Specific Matters for Comment' listed below.

Submissions play an important role in the decisions that the AASB will make in regard to a Standard. The AASB would prefer that respondents supplement their opinions with detailed comments, whether supportive or critical, on the major issues. The AASB regards both critical and supportive comments as essential to a balanced review and will consider all submissions, whether they address all specific matters, additional issues or only one issue.

Due Date for Comments to the AASB

Comments should be submitted to the AASB by 22 March 2013. This will enable the AASB to consider those comments in the process of formulating its own comments to the IASB. Constituents are also strongly encouraged to send their response to the IASB.

Reduced Disclosure Requirements

AASB 1053 *Application of Tiers of Australian Accounting Standards* establishes a differential reporting framework consisting of two tiers of reporting requirements for preparing general purpose financial statements:

(a) Tier 1: Australian Accounting Standards; and

(b) Tier 2: Australian Accounting Standards – Reduced Disclosure Requirements.

Tier 2 comprises the recognition, measurement and presentation requirements of Tier 1 and substantially reduced disclosures corresponding to those requirements.

This Exposure Draft proposes that the disclosures in AASB 3 *Business Combinations* apply to the acquisition of interests in a joint operation that constitutes a business.

Those disclosures are not considered new disclosure requirements from a Tier 1 perspective and, therefore, the proposals in this Exposure Draft would not give rise to disclosure requirements that need to be addressed for application by Tier 2 entities. The disclosure implications of the proposed paragraph 21A of AASB 11 *Joint Arrangements* are covered by the existing Tier 2 requirements of AASB 3.

AASB Specific Matters for Comment

The AASB would particularly value comments on the following:

1. whether there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals, particularly any issues relating to:

    (a) not-for-profit entities; and

    (b) public sector entities, including GAAP/GFS implications;

2. whether, overall, the proposals would result in financial statements that would be useful to users;

3. whether the proposals are in the best interests of the Australian economy; and

4. unless already provided in response to specific matters for comment 1 – 3 above, the costs and benefits of the proposals relative to the current requirements, whether quantitative (financial or non-financial) or qualitative.

December 2012

Exposure Draft ED/2012/7

Acquisition of an Interest in a Joint Operation

Proposed amendment to IFRS 11

Comments to be received by 23 April 2013

IFRS®

Acquisition of an Interest in a Joint Operation

(Proposed amendment to IFRS 11)

Comments to be received by 23 April 2013

Exposure Draft ED/2012/7 *Acquisition of an Interest in a Joint Operation* (Proposed amendment to IFRS 11) is published by the International Accounting Standards Board (IASB) for comment only. The proposals may be modified in the light of the comments received before being issued in final form as amendments to IFRSs. Comments on the Exposure Draft, the Basis for Conclusions and the Illustrative Examples should be submitted in writing so as to be received by **23 April 2013**. Respondents are asked to send their comments electronically to the IASB website (www.ifrs.org), using the 'Comment on a proposal' page.

All responses will be put on the public record unless the respondent requests confidentiality. However, such requests will not normally be granted unless supported by good reason, such as commercial confidence.

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Introduction

The objective of the proposed amendment is to introduce guidance on the accounting, by a joint operator, for the acquisition of an interest in a joint operation, as defined in IFRS 11 *Joint Arrangements*, in which the activity of the joint operation constitutes a business, as defined in IFRS 3 *Business Combinations*.

Paragraph 20 of IFRS 11 requires a joint operator to recognise, in relation to its interest in a joint operation, among other things:

(a) its assets, including its share of any assets held jointly; and

(b) its liabilities, including its share of any liabilities incurred jointly.

In addition, paragraph 21 of IFRS 11 specifies that a joint operator shall account for those assets and liabilities in accordance with the Standards that are applicable.

However, neither IFRS 11 nor IAS 31 *Interests in Joint Ventures*, which IFRS 11 replaced, provided guidance on the accounting by a joint operator for the acquisition of an interest in a joint operation in which the activity of the joint operation constitutes a business.

As a result of the lack of guidance in IAS 31, significant diversity has arisen in practice in venturers' accounting for the acquisition of interests in jointly controlled operations or assets in which the activity of the jointly controlled operations or assets constitutes a business, as defined in IFRS 3. Such diversity relates to:

(a) a premium that is paid in addition to the fair value of the identifiable net assets; for example, a premium paid for synergies. Such a premium is either recognised as a separate asset, ie goodwill, or is allocated to the identifiable assets on the basis of their relative fair values;

(b) deferred tax assets and deferred tax liabilities that arise from the initial recognition of assets and liabilities, except for deferred tax liabilities that arise from the initial recognition of goodwill, are either recognised on the acquisition of the interests in the jointly controlled operations or assets in which the activity constitutes a business, or are not recognised because of the initial recognition exceptions in paragraphs 15 and 24 of IAS 12 *Income Taxes*; and

(c) acquisition-related costs, which are either capitalised or recognised as an expense.

The IASB is concerned that this significant diversity in practice may continue after the application of IFRS 11.

As a result, the IASB proposes to amend IFRS 11 and IFRS 1 *First-time Adoption of International Financial Reporting Standards* so that a joint operator accounting for the acquisition of an interest in a joint operation in which the activity of the joint operation constitutes a business applies the relevant principles for business combinations accounting in IFRS 3 and other Standards, and discloses the relevant information required by those Standards for business combinations.

The proposed amendment does not only apply to the acquisition of an interest in an existing joint operation, but also to the acquisition of an interest in a joint operation on its formation. However, it should not apply if the formation of the joint operation coincides with the formation of the business. This is the case when no existing business is contributed to the joint operation on its formation. Consequently, the scope of the proposed amendment is, in terms of a limited scope project, limited to those fact patterns that are subject to significant diversity in practice, as observed by the IFRS Interpretations Committee.

To avoid the use of hindsight when determining the acquisition-date fair values of the identifiable assets and liabilities that are to be recognised as part of the transition, the IASB proposes that an entity would apply the proposed amendment to IFRS 11 and the consequential amendment to IFRS 1 prospectively to acquisitions of interests in joint operations in which the activity of the joint operation constitutes a business, on or after the effective date of the proposed amendment.

Next steps

The IASB will consider the comments that it receives on the proposal and will decide whether it will proceed with the proposed amendment to IFRS 11 and the consequential amendment to IFRS 1.

Invitation to comment

The IASB invites comments on the proposals in this Exposure Draft, particularly on the questions set out below. Comments are most helpful if they:

(a) comment on the questions as stated;

(b) indicate the specific paragraph or group of paragraphs to which they relate;

(c) contain a clear rationale; and

(d) include any alternative that the IASB should consider, if applicable.

The IASB is not requesting comments on matters that are not addressed in this Exposure Draft. Comments should be submitted in writing so as to be received no later than **23 April 2013**.

Questions for respondents

Question 1: relevant principles
The IASB proposes to amend IFRS 11 and IFRS 1 so that a joint operator accounting for the acquisition of an interest in a joint operation in which the activity of the joint operation constitutes a business applies the relevant principles on business combinations accounting in IFRS 3 and other Standards, and discloses the relevant information required by those Standards for business combinations. Do you agree with the proposed amendment? Why or why not? If not, what alternative do you propose?

Question 2: scope
The IASB intends to apply the proposed amendment to IFRS 11 and the proposed consequential amendment to IFRS 1 to the acquisition of an interest in a joint operation on its formation. However, it should not apply if no existing business is contributed to the joint operation on its formation. Do you agree with the proposed amendment? Why or why not? If not, what alternative do you propose?

Question 3: transition requirement
The IASB intends to apply the proposed amendment to IFRS 11 and the proposed consequential amendment to IFRS 1 prospectively to acquisitions of interests in joint operations in which the activity of the joint operation constitutes a business on or after the effective date. Do you agree with the proposed transition requirement? Why or why not? If not, what alternative do you propose?

[Draft]
Acquisition of an Interest in a Joint Operation
(Proposed amendment to IFRS 11)

Proposed amendment to IFRS 11 *Joint Arrangements*

In IFRS 11, paragraph 21A is added. New text is underlined. Paragraphs 20–21 have been included for ease of reference but are not proposed for amendment.

Financial statements of parties to a joint arrangement

Joint operations

20 A joint operator shall recognise in relation to its interest in a joint operation:

(a) its assets, including its share of any assets held jointly;

(b) its liabilities, including its share of any liabilities incurred jointly;

(c) its revenue from the sale of its share of the output arising from the joint operation;

(d) its share of the revenue from the sale of the output by the joint operation; and

(e) its expenses, including its share of any expenses incurred jointly.

21 A joint operator shall account for the assets, liabilities, revenues and expenses relating to its interest in a joint operation in accordance with the IFRSs applicable to the particular assets, liabilities, revenues and expenses.

21A When an entity acquires an interest in a joint operation in which the activity of the joint operation constitutes a business, as defined in IFRS 3 *Business Combinations*, it shall apply, to the extent of its interest according to paragraph 20, the relevant principles on business combinations accounting in IFRS 3 and other IFRSs and disclose the relevant information that is required in those IFRSs for business combinations. The accounting for the acquisition of an interest in such a joint operation is specified in paragraphs B33A–B33B.

Appendix B
Application guidance

In Appendix B, the main heading following paragraph B33 is amended. A subheading and paragraphs B33A–B33B are added after the main heading following paragraph B33. New text is underlined.

Financial statements of parties to a joint arrangement (paragraphs 21A and 22)

Accounting for acquisitions of interests in joint operations

B33A When an entity acquires an interest in a joint operation in which the activity of the joint operation constitutes a business, as defined in IFRS 3, it shall apply, to the extent of its interest according to paragraph 20, the relevant principles on business combinations accounting in IFRS 3 and other IFRSs and disclose the relevant information required by those IFRSs for business combinations. The principles on business combinations accounting include:

(a) measuring identifiable assets and liabilities at fair value other than those items for which exceptions are given in IFRS 3 and other IFRSs;

(b) recognising acquisition-related costs as expenses in the periods in which the costs are incurred and the services are received, with the exception that the costs to issue debt or equity securities are recognised in accordance with IAS 32 *Financial Instruments: Presentation* and IFRS 9;[1]

(c) recognising deferred tax assets and deferred tax liabilities that arise from the initial recognition of assets or liabilities, except for deferred tax liabilities that arise from the initial recognition of goodwill; and

(d) recognising the excess of the consideration transferred over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed, if any, as goodwill.

B33B Paragraphs 21A and B33A apply to the acquisition of an interest in a joint operation on its formation, except when there is no existing business.

Accounting for sales or contributions of assets to a joint operation

...

1 If an entity applies this amendment but does not yet apply IFRS 9, the reference in this amendment to IFRS 9 shall be read as a reference to IAS 39 *Financial Instruments: Recognition and Measurement*.

Appendix C
Effective date, transition and withdrawal of other IFRSs

In Appendix C, paragraph C1AA is added after paragraph C1A and a subheading and paragraph C14A are added after paragraph C14. New text is underlined.

Effective date

...

C1AA *Acquisition of an Interest in a Joint Operation* (Amendment to IFRS 11) issued in [date] amended the heading after paragraph B33 and added paragraphs 21A, B33A–B33B and C14A and headings. An entity shall apply that amendment for annual periods beginning on or after [date]. Earlier application is permitted. If an entity applies that amendment for an earlier period it shall disclose that fact.

Transition

...

Accounting for acquisitions of interests in joint operations

C14A *Acquisition of an Interest in a Joint Operation* (Amendment to IFRS 11) issued in [date] amended the heading after paragraph B33 and added paragraphs 21A, B33A–B33B, C1AA and headings. An entity shall apply that amendment prospectively for acquisitions of interests in joint operations from the beginning of the first period for which it applies that amendment. Consequently, amounts recognised for acquisitions of interests in joint operations in prior periods shall not be adjusted.

Proposed consequential amendment to IFRS 1 *First-time Adoption of International Financial Reporting Standards*

In Appendix C, paragraph C5 is amended and paragraph 39M is added. New text is underlined and deleted text is struck through.

Appendix C
Exemptions for business combinations

...

C5 The exemption for past business combinations also applies to past acquisitions of investments in associates, ~~and of~~ interests in joint ventures and interests in joint operations in which the activity of the joint operation constitutes a business. Furthermore, the date selected for paragraph C1 applies equally for all such acquisitions.

Effective date

...

39M *Acquisition of an Interest in a Joint Operation* (Amendment to IFRS 11) issued in [date] amended paragraph C5. An entity shall apply that amendment for annual periods beginning on or after [date]. If an entity applies related amendments in IFRS 11 from *Acquisition of an Interest in a Joint Operation* (Amendment to IFRS 11) for an earlier period, the amendment to paragraph C5 shall be applied for that earlier period.

Approval by the Board of *Acquisition of an Interest in a Joint Operation* (Proposed amendment to IFRS 11) published in December 2012

The Exposure Draft *Acquisition of an Interest in a Joint Operation* was approved for publication by the fifteen members of the International Accounting Standards Board.

Hans Hoogervorst	Chairman
Ian Mackintosh	Vice-Chairman
Stephen Cooper	
Philippe Danjou	
Martin Edelmann	
Jan Engström	
Patrick Finnegan	
Amaro Luiz de Oliveira Gomes	
Prabhakar Kalavacherla	
Patricia McConnell	
Takatsugu Ochi	
Paul Pacter	
Darrel Scott	
Chungwoo Suh	
Wei-Guo Zhang	

Basis for Conclusions on the proposed amendment to IFRS 11 *Joint Arrangements*

This Basis for Conclusions accompanies, but is not part of, the proposed amendment.

Financial statements of parties to a joint arrangement

Accounting for acquisitions of interests in joint operations

BC1 The IFRS Interpretations Committee (the Interpretations Committee) reported to the IASB that practice differed significantly in accounting for the acquisition of interests in jointly controlled operations or assets, as specified in IAS 31 *Interests in Joint Ventures*. In particular, the Interpretations Committee noted significant diversity in practice, if the activity of the jointly controlled operations or assets constitutes a business, as defined in IFRS 3 *Business Combinations*. This includes formations of jointly controlled operations or assets when existing businesses are contributed in the formations.

BC2 While some apply the relevant principles of business combinations accounting in IFRS 3 and other Standards, others allocate the total cost of acquiring interests in jointly controlled operations or assets to the individual identifiable assets and liabilities on the basis of their relative fair values.

BC3 A third group applies the relevant principles of business combinations accounting only to issues that are not addressed in other Standards.

BC4 The different approaches have led to different accounting outcomes, in particular:

(a) in accounting for premiums paid for synergies;

(b) in capitalising or expensing acquisition-related costs; and

(c) in accounting for deferred tax assets and deferred tax liabilities that arise from the initial recognition of assets and liabilities.

BC5 The IASB noted that the significant diversity in practice results from the fact that IAS 31 does not give comprehensive guidance on the accounting for acquisitions of interests in jointly controlled operations or assets, the activity of which constitutes a business, as defined in IFRS 3. The IASB is concerned that this significant diversity in practice may continue in the accounting for acquisitions of interests in joint operations, as defined in IFRS 11,[2] the activities of which constitute businesses.

BC6 The IASB considered the guidance in current Standards on the acquisition of an interest in a business and concluded that the most appropriate approach to account for an acquisition of an interest in a joint operation in which the activity of the joint operation constitutes a business, as defined in IFRS 3, is to apply all the relevant principles on business combinations accounting in IFRS 3 and other Standards.

2 IFRS 11 *Joint Arrangements* has to be applied for annual periods beginning on or after 1 January 2013. It replaces IAS 31 *Interests in Joint Ventures*.

BC7 The IASB reached this conclusion because:

(a) it considers that separate recognition of goodwill, when present, is preferable to allocating premiums to identifiable assets acquired on the basis of relative fair values;

(b) it thinks that an approach that limits the application of business combinations accounting only to issues that are not addressed elsewhere in the Standards lacks a strong conceptual basis; and

(c) the guidance in IFRS 3 and other Standards on business combinations gives a comprehensive and consistent set of accounting principles for the different components of the transaction.

BC8 The IASB also concluded that an entity that is acquiring an interest in a joint operation in which the activity of the joint operation constitutes a business, as defined in IFRS 3, shall disclose the relevant information that is specified in IFRS 3 and other Standards on business combinations. This is because these requirements are an integral part of the financial reporting about the acquisition of interests in businesses.

BC9 Consequently, the IASB proposes to amend IFRS 11 to address the accounting for both the acquisition of an interest in a joint operation in which the activity of the joint operation constitutes a business, as defined in IFRS 3, and the related disclosure requirements, as a means to resolve the significant diversity in practice.

BC10 The scope of the proposed amendment to IFRS 11 is, in terms of a limited scope project, limited to those fact patterns that are subject to significant diversity in practice, as observed by the Interpretations Committee. Consequently, the IASB proposes that the amendment should not only apply to the acquisition of an interest in an existing joint operation but also to the acquisition of an interest in a joint operation on its formation. However, the proposed amendment should not apply if the formation of the joint operation coincides with the formation of the business. This is the case when no existing business is contributed to the joint operation on its formation.

Effective date and transition

BC11 The IASB considered the transitional provisions and effective date of the amendment to IFRS 11. The IASB noted that applying the relevant principles of business combinations accounting in IFRS 3 and other Standards to transactions that have previously been accounted for by applying one of the divergent approaches presented in paragraphs BC2–BC3 might involve the use of hindsight in determining the acquisition-date fair values of the identifiable assets and liabilities to be recognised as part of the transaction. Consequently, the IASB proposes that an entity would apply the proposed amendment to IFRS 11 prospectively for annual periods beginning on or after [date].

Illustrative examples
IFRS 11 *Joint Arrangements*

These examples accompany, but are not part of, IFRS 11. They illustrate aspects of IFRS 11 but are not intended to provide interpretative guidance.

After paragraph IE52, a heading and paragraphs IE53–IE56 are added.

Example 7—Accounting for acquisitions of interests in joint operations

IE53 Entity A acquires a 40 per cent ownership interest in a joint operation (Joint Operation C) at a cost of CU300[3] and incurs acquisition-related costs of CU50. The contractual arrangement between the parties establishes that Entity A has rights to the assets and obligations for the liabilities that relate to the joint operation in proportion to its ownership interest.

IE54 IFRS 3 *Business Combinations* requires the entity to measure the identifiable assets acquired and the liabilities assumed at their acquisition-date fair values with limited exceptions; for example, deferred tax assets and deferred tax liabilities are not measured at fair value but are measured in accordance with IAS 12 *Income Taxes*. The following table sets out:

(a) the acquisition-date amounts required by IFRS 3 for the entire net assets, ie fair value or the measurement required by IFRS 3 instead of the identifiable assets acquired and the liabilities assumed;

(b) Entity A's share in these assets and liabilities; and

(c) the amounts that Entity A recognises in its financial statements in relation to its interest in the joint operation.

	Acquisition-date amounts required by IFRS 3 for the entire net assets	***Entity A's share in these assets and liabilities***	***Amounts recognised in Entity A's financial statements***
Property, plant and equipment	270	40%	108
Intangible assets (excluding goodwill)	125	40%	50
Accounts receivable	210	40%	84
Inventory	175	40%	70
Retirement benefit obligations	(30)	40%	(12)

continued...

3 In this example, monetary amounts are denominated in 'currency units (CU)'.

...continued

	Acquisition-date amounts required by IFRS 3 for the entire net assets	*Entity A's share in these assets and liabilities*	*Amounts recognised in Entity A's financial statements*
Accounts payable	(120)	40%	(48)
Deferred tax liability	(60)	40%	(24)
Net assets	**570**		**228**

IE55 Entity A applies the relevant principles on business combinations accounting in IFRS 3 and other IFRSs for identifying, measuring and classifying the assets acquired and liabilities assumed on the acquisition of the interest in Joint Operation C. However, Entity A recognises, in relation to its interest in the joint operation, only its share in each of the assets that is jointly held and in each of the liabilities that is incurred jointly, as stated in the contractual arrangement, and not the shares of the other parties to the joint operation in those assets and liabilities. The excess of the consideration transferred over the amount allocated to its share in the net identifiable assets is recognised as goodwill.

Consideration transferred	CU300
Entite A's share in the identifiable assets and liabilities relating to its interest in the joint operation	CU228
Goodwill	**CU72**

IE56 Acquisition-related costs are not considered to be part of the consideration transferred for the interest in the joint operation. They are recognised as expenses in profit or loss in the period that the costs are incurred and the services are received.

